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IN THE

# Supreme Court of the United States

ELK CORPORATION OF DALLAS,

*Petitioner*,

—v.—

GAF BUILDING MATERIALS CORPORATION, BUILDING MATERIALS CORPORATION OF AMERICA, BUILDING MATERIALS CORPORATION OF AMERICA d/b/a GAF MATERIALS CORPORATION, and GAF MATERIALS CORPORATION,

*Respondents*.

ON PETITION FOR A WRIT OF CERTIORARI TO THE UNITED STATES COURT OF APPEALS FOR THE FEDERAL CIRCUIT

## REPLY IN SUPPORT OF PETITION FOR A WRIT OF CERTIORARI

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GAF's Opposition acknowledges the conflict between the Federal Circuit and the Patent and Trademark Office ("PTO") regarding the legal standard for determining wi[illegible]ior art is "material" to a patent application. Yet GAF urges the Cour[illegible] to ignore the conflict, despite its significant impact on the processing of patents by the PTO and on patent litigation in the courts.[1]

As matters now stand, the owner of a patent granted by the PTO, after full compliance with PTO Rule 56, may nevertheless lose the right to enforce the patent because the Federal Circuit refuses to accept the PTO's considered judgment regarding the information that must be submitted *to the PTO* with a patent application. Without ever explaining why, the Federal Circuit has completely negated the two-year rulemaking proceeding that culminated in current PTO Rule 56, and has in effect declared that it likes the old Rule better.

The urgency of Elk's petition, never addressed by GAF, is underscored by the fact that the Federal Circuit has never acknowledged its conflict with the PTO. The conflict only surfaced in this case during oral argument. (Appendix G to Petition, p. 81a). Two years ago, in *Critikon, Inc. v. Becton Dickinson Vascular Access, Inc.*, 120 F.3d 1253, 1257 (1997), *cert. denied*, 523 U.S. 1071 (1998), the Federal Circuit mixed the old and new versions of Rule 56, stating:

> [t]he starting point in determining materiality is the definition of the PTO, which recites, in part, as follows: 'information is material to patentability when it is not cumulative to information already of record in the application, and . . . [i]t refutes, or is inconsistent with, a position the applicant takes in: . . . [a]sserting an argument of patentability.' 37 C.F.R. 1.56(b)(2)(ii) (1996) (omissions in original).

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[1] Since March 1992, the PTO has issued approximately 930,000 patents. The issue presented in this case is potentially applicable to pending or future litigation involving any of those patents.

While the Federal Circuit quoted most of the current Rule, it *omitted* the "*prima facie* case of unpatentability" standard, and applied the *old* Rule's reasonable examiner standard. 120 F.3d at 1257, 1258.[2]

The Federal Circuit was created to bring uniformity and cohesion to the administration of the nation's patent laws. But the Federal Circuit has now quietly, and without explanation, rejected a PTO promulgated standard, which was adopted after lengthy and considered deliberation, and which affects every United States patent and nearly all patent litigation. In these circumstances, there is a compelling need to resolve the conflict presented in this case so that inventors, patent attorneys, patent agents and the courts will know whether the PTO Rules, or federal common law, govern conduct before the PTO.

### A. The Applicability of PTO Rule 56 was "Pressed And Passed On" Below.

GAF asserts that the Petition should be denied because the issue raised by Elk "was neither argued nor decided below." Opp. at 11. While it is true that this Court generally refuses to grant certiorari when "the question was not pressed or passed on below," neither of those circumstances applies in this case. *United States v. Williams*, 504 U.S. 36, 41 (1992).[3] In this case, the applicability of current Rule 56 was

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[2] GAF contends that the Federal Circuit was correct in applying old Rule 56 in this case because Elk's patent application was filed before the March 16, 1992 effective date of new Rule 56. Opp. at 20. But in *Critikon* one of the patents under review issued in October 1993 on an application filed in December 1991. Thus, *even according to the Federal Circuit*, as well as the PTO, current Rule 56 should be applicable in cases like this one, where the patent-in-suit issued in February 1994 on an application filed in September 1991.

[3] The rule "operates (as it is phrased) in the disjunctive, permitting review of an issue not pressed so long as it has been passed upon." *Id.*; *accord Lebron v. National R.R. Passenger Corp.*, 513 U.S. 374, 379 (1995); *Virginia Bankshares, Inc. v. Sandberg*, 501 U.S. 1083, 1099 n.8 (1991); *Stevens v. Department of Treasury*, 500 U.S. 1, 8 (1991). Similarly, this Court has (continued...)

pressed by both Elk *and* GAF, and was passed on in both the district court and in the Federal Circuit.

First, in its briefs to the district court, Elk pressed the issue by arguing that the standard of materiality is governed by current Rule 56.[4] Subsequently, in its October 10, 1997 Order addressing GAF's inequitable conduct claim, the district court agreed that current Rule 56 controls, stating that "Elk's compliance with its duty to disclose all material information must be judged by the standards of the current version of [PTO Rule 56]," which the court observed "requires disclosure of any information which would make out a *prima facie* case against the patent, irrespective of whether the applicant could ultimately overcome it." Appendix B to Petition, pp. 17a - 18a. The district court purported to apply the materiality standard of the current Rule in its decision, but in actuality, it applied the old Rule. Petition pp. 4-6.

Subsequently, at the Federal Circuit, *both* Elk and GAF continued to argue that the standard under current Rule 56 is controlling. GAF noted that Elk was "subject to" the standards of old Rule 56 and current Rule 56, GAF quoted the current Rule 56 definition of information "material to patentability" and GAF concluded that "[t]he March 1992 standard requires disclosure of any information that would make out a *prima facie* case against the application." GAF Appeal Brief pp. 28-29. During oral argument, counsel for Elk expressly pressed the issue, explaining that the uncited prior art was not material because "it does not together or with something else render the claim unpatentable." (Appendix G to Petition, p. 81a). That is nearly a direct quote from

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[3] (...continued)
granted certiorari in instances where an issue was raised by a party below, but not ruled upon by the lower court. *See Capital Cities Cable, Inc. v. Crisp*, 467 U.S. 691, 697-98 (1984); *Levin v. Mississippi River Fuel Corp.*, 386 U.S. 162, 170 (1967).

[4] Elk Prehearing Br. pp. 5-6 n.2; Elk Posthearing Br. p. 11. In its prehearing brief at page 8, *GAF* asserted that "the sole question before this Court in the bench trial is whether the prior art Elk wilfully withheld -- either alone or together with other prior art -- made out a *prima facie* case of obviousness."

current Rule 56. In response, the court stated: "that's not the test." *Id*; *see* Petition at 7-8.

In its opinion, the Federal Circuit expressly applied the "important to a reasonable examiner" standard of old Rule 56 stating: "Information is 'material' when there is a substantial likelihood that a reasonable examiner would have considered the information important in deciding whether to allow the application to issue as a patent." (Appendix A, p. 9a). Thus, it is clear that the issue was "passed on" by the Federal Circuit.

GAF argues that certiorari should be denied because Elk did not seek rehearing of the Federal Circuit's failure to apply current Rule 56. Opp. at 10, 11-12. However, there is no requirement that a litigant even *ask* for rehearing in the court of appeals on a particular issue before petitioning for certiorari on that issue.[5] Obviously, therefore, the issues that may be raised on certiorari are not limited to those that are presented in a petition for rehearing. Practically speaking, there is little hope that the en banc Federal Circuit will ever address the issue presented in this case, in view of the *sub silentio* rejection of the current Rule by at least four different panels. *See* Petition at 22 n.32.

**B. PTO Rule 56 Has The Force Of Law.**

The Federal Circuit may not ignore current PTO Rule 56 because it is a procedurally valid legislative rule, and thus is binding on the courts.[6] GAF asserts that PTO Rule 56 has no binding effect on the federal courts, arguing that it merely provides "guidance" on the judicially-created doctrine of inequitable conduct. Opp. at 19.

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[5] Indeed, in some circumstances, certiorari may be granted even before the court of appeals has rendered a judgment. *See* 28 U.S.C. § 1254 (certiorari may be granted "before or after rendition of judgment").

[6] *See Batterton v. Francis*, 432 U.S. 416, 425 (1977); *United States v. Nixon*, 418 U.S. 683, 696 (1974).

To determine whether an agency action is a legislative rule, as opposed to a "guideline" or "policy statement," courts look to whether the action (1) affects individual rights and obligations, (2) was promulgated pursuant to express statutory authority, and (3) conforms with the notice and comment requirements of the Administrative Procedure Act.[7] Current Rule 56 meets those requirements.[8]

First, failure to provide "material" information, as defined by Rule 56, could result in a finding of inequitable conduct, and the denial of the patent.[9] Further, in interference proceedings under 35 U.S.C. § 135(a), the PTO may deny a patent based on failure to provide "material" information under Rule 56. Finally, under 37 C.F.R. § 10.23(c), the "materiality" standard of Rule 56 is applied by the PTO to determine whether a practitioner should be suspended or barred from practicing before the PTO due to inequitable conduct during the patent prosecution process. Thus, the Rule obviously affects the rights and obligations of applicants and practitioners before the PTO.

Second, in 35 U.S.C. § 6(a), Congress specifically delegated to the PTO the power to "superintend or perform all duties required by law respecting the granting and issuing of patents and the registration of trademarks." The PTO also has the power to "establish regulations, not inconsistent with law, for the conduct of proceedings in the [PTO]." *Id.* Pursuant to that delegated authority, the PTO promulgated regulations governing the patent application process, including Rule 56. Thus, Rule 56 is a valid exercise of delegated authority under a specific statute, 35 U.S.C. § 6(a).

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[7] *Chrysler Corp. v. Brown*, 441 U.S. 281, 302 (1979); *accord Batterton*, 432 U.S. at 425 n.9.

[8] As Elk pointed out in its Petition, at 11 n.11, the lower courts, including the predecessor to the Federal Circuit, have recognized that PTO Rule 56 is a legislative rule with the force and effect of law. GAF's Opposition completely ignores those decisions.

[9] 37 C.F.R. § 1.56(a) (Appendix F to Petition p. 68a; GAF Appendix 5 p. App. 53.

Third, Rule 56 was promulgated by the PTO in full compliance with the notice and comment requirements of the Administrative Procedure Act, 5 U.S.C. § 553. *See* Petition at 21-22. Thus, as a matter of law, Rule 56 is a legislative rule, and not a "guideline" or "policy statement."

GAF asserts that Rule 56 is not binding because it merely interprets a judicially-created doctrine. Opp. at 15-17. However, a claim of inequitable conduct requires a showing of *two* factors: materiality and intent. While the PTO has observed that the courts are better equipped procedurally to determine intent, the PTO obviously is in the best position to define what information is material *to the PTO's* consideration of a patent application. Because there is a direct conflict between the common law standard of materiality developed by the Federal Circuit and the regulatory standard promulgated by the PTO, the common law standard is pre-empted, and Rule 56 controls. *See* Petition at 12-13.[10] GAF's Opposition does not address that point.

GAF further asserts that the Federal Circuit is not bound by Rule 56 because inequitable conduct is "a decision committed to the discretion of the courts." Opp. at 17. However, it is beyond dispute that if Congress were to legislate a standard of materiality, the courts would be bound to apply it. It is also indisputable that legislative rules have the same force and effect of law as federal statutes. Requiring the courts to apply current Rule 56 does not impinge on the powers of the judiciary, but merely requires that they follow federal law in determining one of the elements of a claim of inequitable conduct.

In *United States v. Haggar Apparel Co.*, __ U.S. __, 119 S. Ct. 1392, 1399 (1999), this Court rejected the argument that where a court is empowered to conduct *de novo* review of agency action, it need not give *Chevron* deference to the applicable agency regulations. The Court stated:

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[10] *O'Melveny & Myers v. FDIC*, 512 U.S. 79, 87 (1994); *Murphy v. FDIC*, 61 F.3d 34, 35, 38-40 (D.C. Cir. 1995); *Ledo Fin. Corp. v. Summers*, 122 F.3d 825, 829 (9th Cir. 1997).

> Valid regulations establish legal norms. Courts can give them proper effect even while applying the law to newfound facts, just as any court conducting a trial in the first instance must conform its ruling to controlling statutes, rules, and judicial precedents. . . . *De novo* proceedings presume a foundation of law. The question here is whether the regulations are part of that controlling law. Deference can be given to the regulations without impairing the authority of the court to make factual determinations and to apply those determinations to the law, *de novo*.

*Id.* In this case, while the court must make factual determinations regarding materiality and intent, it may not ignore the controlling *legal* standard of materiality set forth in Rule 56 when it makes those determinations.[11]

### C. Current Rule 56 Applies Because Elk's Patent Was Pending On The Effective Date of The Rule.

GAF asserts that certiorari should be denied because the patent application that resulted in Elk's design patent was filed before current Rule 56 became effective. Opp. at 20. However, GAF fails to address the fact that, in adopting the current standard, the PTO expressly stated

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[11] GAF also argues that, in promulgating Rule 56, the PTO recognized that the determination of inequitable conduct is a question for the courts. Opp. at 18-19. However, the PTO anticipated that the materiality standard of current Rule 56 would be applied by the courts in making that determination:

> *Comment 12.* One comment stated that the proposed § 1.56 definition [of materiality] would be difficult to apply in litigation in which a different burden-of-proof standard is applied.
>
> *Reply:* The definition of information material to patentability includes standards which are familiar to the Federal courts and which are capable of being handled like other issues. 57 Fed. Reg. 2021, 2025 (Jan. 17, 1992).

that it would apply to all applications pending on the effective date, March 16, 1992.[12] There is no dispute that the patent application that resulted in Elk's design patent was pending in the PTO on the effective date of Rule 56, and remained pending for nearly two years thereafter, until February 8, 1994. Although GAF argues that this case is "unique," it is not. Elk identified other cases where the Federal Circuit failed to apply the current Rule where the patent application was pending on the Rule's effective date. *See* Petition at 22 n.32.

More importantly, GAF provides no reason *why* it would be more appropriate to take up the legal question presented by this case in the future, rather than now. The Federal Circuit is the only Circuit authorized to hear appeals in patent cases, and although it has never explained its reasoning, its position on this issue is clear. The issue should not be allowed to evade further review simply because the Federal Circuit refuses to talk about it. If the current PTO Rule controls, then it controls in this case just as clearly as in cases where the application was filed after the effective date of the current Rule. In *neither* case does the Federal Circuit have discretion to ignore the Rule. It has been more than *seven years* since the current PTO Rule was issued, and there is no good reason to postpone this Court's confirmation of its binding effect any further.

### D. The Result In This Case Would Change If Current Rule 56 Were Applied.

GAF's final argument is that the result in this case would not change because "Elk's conduct contravenes both versions of Rule 56." Opp. at 21-25. However, GAF's argument is based on findings made by the district court under the *old* standard. That argument ignores the fundamental change in the legal standard of materiality under current Rule 56, and is based on the unspoken premise that there is no real

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[12] 57 Fed. Reg. 2021 (1992) ("Effective Date: March 16, 1992. These rules will be applicable to all applicants and reexamination proceedings pending or filed after the effective date."); *see also Molins PLC v. Textron, Inc.*, 48 F.3d 1172, 1179 n.8 (Fed. Cir. 1995).

difference between the test under current Rule 56 and the test under old Rule 56, as applied by the Federal Circuit. The standard of materiality under current Rule 56 is dramatically different from the standard applied by the Federal Circuit, and was promulgated by the PTO for the express purpose of eliminating the harsh and grossly inconsistent effects of Federal Circuit precedent. *See* Petition at 14-22, 24-28. In this case, while the district court acknowledged at the outset that current Rule 56 controlled, it followed Federal Circuit precedent in making its actual materiality determination. The district court failed to recognize that all of the existing Federal Circuit precedent interprets and applies the old "reasonable examiner" standard that was rejected when current Rule 56 was promulgated.

In particular, although the district court agreed "with Elk that its claimed invention is not obvious," and therefore not *prima facie* unpatentable, it relied on the Federal Circuit decision in *Molins*, 48 F.3d at 1178-80, for the proposition that whether "the claims may be patentable over the withheld prior art is not the test for materiality," and therefore deemed the nonobviousness of Elk's invention irrelevant to its materiality determinations. Appendix B to Petition p. 21a n.5.[13] The court failed to recognize that, contrary to *Molins*, under the legal standard of current Rule 56, the question of whether the claims are *prima facie* "patentable over the withheld prior art" *is exactly the test* for materiality. Under current Rule 56, the district court's construction of Elk's patent claim and its finding that Elk's claim was not obvious in view of the uncited art should have been dispositive of the issue of materiality.[14]

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[13] *See also id.* at 31a ("The court agrees that Elk indeed made a unique discovery with its claimed innovation which was superior to the strip shingle and shadow line prior art.")

[14] The district court also failed to recognize that the holding in *Molins* on which it relied was based on the old "reasonable examiner" test, and was derived from the Federal Circuit's prior decision in *A.B. Dick Co. v. Burroughs Corp.*, 798 F.2d 1392 (Fed. Cir. 1986), which current Rule 56 was expressly intended to overrule. *See* Petition at n.39.

Under current Rule 56, information is material if, *on its face*, it would render the claimed invention unpatentable. 37 C.F.R. § 1.56(b). Thus, step one of the analysis of materiality under the current rule is to consider the *claimed invention*. In this case, the Federal Circuit decided the key issues of materiality and intent, not with reference to the invention claimed in the patent-in-suit, but instead with regard to a different Elk invention, Elk's T-3 shingle, which is covered by a different Elk patent. (GAF Appendix 2 pp. App. 10-12). Had the district court and the Federal Circuit properly applied the materiality standard of current Rule 56, they would have construed the invention claimed in Elk's patent and determined whether the uncited art rendered it *prima facie* unpatentable. The district court's essential agreement with Elk that its claimed invention was *not prima facie* unpatentable should have been the end of the inquiry.[15]

Respectfully submitted,

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[15] As for GAF's other arguments (Opp . at 23-25), in the Federal Circuit, Elk explained that the "deceptive argument" and "GS High Sierra" grounds for inequitable conduct found by the district court were clearly erroneous, and the Federal Circuit did not rely on those grounds. Elk's Appeal Br. pp. 20-23, 26-28, 30-31, 37-38, 44-46; Elk's Reply pp. 8, 11-19. The district court's "deceptive argument" ruling, based on the finding of materiality, contradicted its prior "Order Re: Construction of Patent Claims." *See* Petition at 5-6.